

Message Text

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C O N F I D E N T I A L SECTION 1 OF 3 OTTAWA 0622

E.O. 11652: GDS
TAGS: EGEN, CA
SUBJ: ECONOMIC NATIONALISM IN CANADA

1. SUMMARY: ALTHOUGH ECONOMIC NATIONALISM IS HARDLY DEADL IN CANADA, THERE IS EVIDENCE THAT FERVOR HAS PEAKED AND BEGUN TO ABATE. PUBLIC OPINION AND GOC ATTITUDES APPEAR TO HAVE CHANGED SOMEWHAT OVER RECENT PAST, AND SEARCH FOR CANADIAN "ECONOMIC IDENTITY" NO LONGER SEEMS HAVE HIGH PRIORITY IN GOC POLICY PLANS. EMBASSY BELIEVES REDUCED EMPHASIS ON NATIONALIST THEMES AND LEGISLATIVE ACTIONS DUE PARTLY TO HEIGHTENED DOMESTIC ECONOMIC AND POLITICAL PROBLEMS WHICH NOW OCCUPY GOC ATTENTION BUT ALSO DUE GROWING REALIZATION ON PART OF GOC OFFICIALS THAT ECONOMIC
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NATIONALISM CARRIES HIGH PRICE TAG (E.G. REDUCED FOREIGN DIRECT INVESTMENT FLOWS AND FRICTION WITH U.S.) EMBASSY HAS PLAYED ROLE IN MAKING GOC AND CANADIAN PUBLIC MORE SENSITIVE TO U.S. CONCERNS REGARDING CANADIAN UNILATERAL ACTIONS STEMMING FROM NATIONALIST DRIVE. DESPITE APPARENT SHIFT IN ATTITUDES, WE MUST, OF COURSE, ASSUME THAT ECONOMIC NATIONALISM WILL CONTINUE TO HAVE

AN INFLUENCE ON THE FORMULATION AND IMPLEMENTATION OF
POLICY ON CERTAIN ISSUES SUCH AS ENERGY, BANKING
LEGISLATION, OR SOME FORMS OF FOREIGN INVESTMENT.
END SUMMARY.

2. DURING EARLY 1970'S, GOC INITIATED LEGISLATION
CATERING TO GROWING SPIRIT OF NATIONALISM IN CANADA.
WITH PASSAGE OF SUCH BILLS AS FOREIGN INVESTMENT REVIEW
ACT, DESIGNED TO SCREEN OUT "BAD" FOREIGN INVESTMENT,
AND CANADIAN DEVELOPMENT CORPORATION ACT, INTENDED TO
"BUY BACK" CANADA, GOC APPEARED WILLING TO TAKE ACTIONS
WHICH MIGHT JEOPARDIZE GOOD RELATIONS WITH U.S. IN ORDER
TO SATISFY NOT ONLY RADICAL NATIONALISTS CALLING FOR
"ECONOMIC INDEPENDENCE" FROM U.S., BUT ALSO GOC ECONOMIC
PLANNERS WHO SINCERELY BELIEVED ECONOMY WAS TOO CLOSELY
TIED TO U.S. AS RECENTLY AS 1975 THE GOC INTRODUCED
LEGISLATION, SOMETIMES WITH GREAT FANFARE, WHICH HAD
NATIONALISTIC BENT. BILL C-58, AN ACT TO RESTRICT
CANADIAN FROM SPENDING THEIR ADVERTISING DOLLARS IN THE
U.S., WAS TINGED WITH CULTURAL NATIONALISM. IN CREATION
OF PETRO-CANADA, ARGUMENTS FOR ACT WERE OFTEN BASED ON
NATIONAL SECURITY CONSIDERATIONS.

3. IN RECENT MONTHS, EVIDENCE SUGGESTS THAT ECONOMIC
NATIONALISM HAS PEAKED IN CANADA, AND MAY HAVE BEGUN
TO ABATE. BOTH PUBLIC AND GOVERNMENT ATTITUDES APPEAR
TO HAVE SHIFTED, ALTHOUGH EXTENT IS DIFFICULT TO
QUANTIFY. THIS IS NOT SAY THAT ECONOMIC NATIONALISM
IS DEAD IN CANADA. RATHER, SOME STEAM SEEMS TO HAVE
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GONE OUT OF MOVEMENT, AND THERE IS GROWING PERCEPTION
IN THE GOC THAT CANADA NEEDS MORE, NOT LESS FOREIGN
INVESTMENT, AND THAT CANADA'S FUTURE ECONOMIC GROWTH
COULD BE HINDERED BY ADDITIONAL LEGISLATION CATERING TO
ECONOMIC NATIONALISM. RECENT ARTICLE IN MACLEAN'S
MAGAZINE (ITSELF THE LEADING NATIONALIST SPOKESMAN) CALIMED
THAT "AS POPULAR ISSUE, ECONOMIC NATIONALISM SEEMS
TO HAVE GONE THE WAY OF ECOLOGY, CIVIL RIGHTS AND
BAN-THE-BOMB."

4. ITC MINISTER JEAN CHRETIEN, WHO APPEARS TO BE CHIEF
GOC SPOKESMAN FOR THIS SOMEWHAT CHANGED ATTITUDE, TOLD
LARGELY AMERICAN AUDIENCE IN HIS MAIDEN SPEECH IN TORONTO
IN OCTOBER (SEE OTTAWA'S 4033) THAT "CONTINUING FLOW
OF DIRECT INVESTMENT FROM ABROAD IS AN ESSENTIAL
CONDITION OF CONTINUED ECONOMIC PROGRESS" IN CANADA, AND
HE PROMISED TO CUT BUREAUCRATIC RED TAPE AT FIRA. SINCE
THEN HE HAS BEGUN SERIES OF SPEECHES IN U.S. ATTEMPTING
ASSURE AMERICAN INVESTORS THAT CANADA IS NOT "ANTI-

AMERICAN" AND ACTUALLY WELCOMES U.S. DIRECT INVESTMENT
(SEE OTTAWA 4834).

5. ARTICLE ON FIRA IN MACLEAN'S MAGAZINE OF NOVEMBER 1
CLAIMED THAT CHRETIEN'S APPROACH TO FIRA "SEEMS TO RUN
COUNTER TO THE FOREIGN INVESTMENT REVIEW ACT" AND THAT
HE IS "MERELY ECHOING CONCERNS" OF CANADIAN BUSINESSMEN
WHO DISLIKE FIRA BECAUSE THEY MAINTAIN IT IS "UNNECESSARY
INTERVENTION IN THE ECONOMY" AND WHO ACCUSE FIRA OF
CONTRIBUTING TO FALL-OFF IN FOREIGN INVESTMENT. ARTICLE
MAINTAINS THAT INVESTMENT BY FOREIGN FIRMS ALREADY IN
CANADA CONTINUES APACE AND QUOTES MP HERB GRAY (WHO WROTE
ACT) AS SAYING "FIRA HAS DEMONSTRATED THAT THE PROCESS OF
SCREENING FOREIGN INVESTMENT IS PRACTICAL." HOWEVER,
ARTICLE ALSO QUOTES STATEMENT BY ULTRA-NATIONALIST MEL
HURTIG THAT "NATIONALIST MOVEMENT IS IN TROUBLE," AND IF
SUCH IS CASE, ARTICLE CONCLUDES: "FIRA, ITS (NATIONALISM'S)
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BABY, IS IN DIRE PERIL.Z

6. WHEREAS CHRETIEN'S SPEECHES ARE OPEN ATTEMPTS TO WOO
FOREIGN INVESTOR, THERE ARE MORE SUBTLE HINTS OF GOC'S
APPARENT DECISION TO PLAY DOWN NATIONALIST THEMES. IN
CONTRAST TO PREVIOUS LEGISLATIVE SESSIONS, THERE IS NO
BILL CURRENTLY PENDING IN PARLIAMENT WITH DECIDED
ECONOMIC NATIONALIST THRUST, AND ONE OF MAJOR PIECES OF
LEGISLATION TO BE INTRODUCED SHORTLY, NEW BANK ACT, IS
EXPECTED TO OPEN UP, WITHIN CERTAIN LIMITS, CANADIAN
BANKING TO FOREIGN BANKS.

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7. IN EMBASSY'S VIEW, SEVERAL FACTORS HAVE INFLUENCED GOC APPROACH; E.G., CHANGE IN PUBLIC ATTITUDES, WARNINGS BY CANADIAN BUSINESSMEN ABOUT ADVERSE EFFECTS OF ECONOMIC NATIONALISM, AMERICAN REACTIONS TO ISSUES IMPACTING ON BILATERAL RELATIONSHIP, WEAKNESSES IN CANADIAN ECONOMY, AND DOMESTIC POLITICAL PROBLEMS.

-- PUBLIC OPINION POLLS RELEASED IN 1976 SHOWED THAT MAJORITY OF CANADIANS, WHILE CONSIDERING FOREIGN INVESTMENT IMPORTANT ECONOMIC ISSUE, DID NOT BELIEVE SUCH INVESTMENT WAS MOST IMPORTANT ECONOMIC PROBLEM FOR CANADA. HOWEVER, UNLIKE TREND LINE OF PREVIOUS YEARS, WHEN MORE CANADIANS EVERY YEAR WERE CONCERNED ABOUT FOREIGN INVESTMENT, NUMBERS OF CONFIDENTIAL

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SUCH CANADIANS REACHED PLATEAU. ACCORDING TO SURVEY BY ELLIOTT, RESEARCH RELEASED IN MAY, (SEE OTTAWA 217) PEAK REACHED IN 1973-74 WHEN 55 PERCENT OF CANADIANS POLLED VIEWED FOREIGN INVESTMENT AS PRESENT OR FUTURE "SERIOUS PROBLEM." BUT PERCENTAGE DROPPED TO 51 PERCENT IN 1974-75, AND HELD AT 52 PERCENT IN 1975-76.

-- CANADIAN-AMERICAN COMMITTEE REPORT IN MID-1976, WHICH WARNED THAT UNILATERAL GOC ACTIONS COULD THREATEN TRADE RELATIONS WITH CANADA'S MOST IMPORTANT TRADING PARTNER, PROBABLY HAD SOME SOBERING EFFECT. ALMOST UNIVERSAL "HO'HUM" WITH WHICH CANADIAN BUSINESSMEN GREETED "CONTRACTURAL LINK" WITH THE EC PROBABLY ALSO HELPED BRING SOME GOC POLICY MAKERS BACK TO REALITY. (EXTERNAL AFFAIRS MINISTER DON JAMIESON'S REMARKS IN LONDON IN EARLY DECEMBER ABOUT "DISAPPOINTING" RESULTS THUS FAR OF AGREEMENT INDICATE SOME GOC DISILLUSIONMENT WITH MUCH PUBLICIZED "THIRD OPTION" POLICY.) ALSO, SHARP FALL IN U.S. DIRECT INVESTMENT IN CANADA IN FIRST NINE

MONTHS OF 1976, (NET OUTFLOW OF C\$460 MILLION) AND DECIDED SLOW-DOWN IN U.S. TOURISTS COMING TO CANADA (PARTLY BECAUSE OF CANADIAN DOLLAR PREMIUM BUT ALSO BECAUSE OF BAD PRESS CANADA HAD IN U.S.) MAY HAVE CAUSED GOC OFFICIALS TO CURTAIL THEIR ENTHUSIASM FOR ECONOMIC NATIONALISM.

-- EMBASSY HAS ASSUMED MUCH HIGHER PUBLIC PROFILE IN DISCUSSING U.S. NATIONAL INTERESTS WITH RESPECT TO INVESTMENT, ENERGY, TRADE AND MUTUAL SECURITY. AS RESULT, CANADIAN PUBLIC AND GOC OFFICIALS HAVE BECOME MORE CONSCIOUS OF U.S. CONCERNS REGARDING FUTURE OF RELATIONSHIP, AND NEED FOR CANADA TO CONSIDER U.S. INTERESTS BEFORE GOC MAKES UNILATERAL DECISIONS. FOR EXAMPLE, ANTICIPATING SHIFT IN INVESTMENT FLOWS, AMBASSADOR TOLD CANADIAN AUDIENCE IN APRIL 1976 THAT U.S. HAD NO NEED TO EXPORT CAPITAL SINCE "WE DON'T HAVE CONFIDENTIAL

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ENOUGH OURSELVES TO MEET OUR NEEDS FOR EXPANSION, ENERGY INVULNERABILITY, AND THE ENVIRONMENT." HE POINTED OUT THAT IN MANY INDUSTRIES, U.S. HAS BECOME MORE ATTRACTIVE PLACE TO INVEST. AS YEAR CONTINUED, MORE AND MORE ARTICLES APPEARED CONFIRMING FORECAST OF REVERSE DIRECT INVESTMENT FLOW.

-- WITH THE END OF THE COMMODITY BOOM, A GROWING DEFICIT IN CRUDE OIL TRADE, A DETERIORATING COMPETITIVE POSITION, STILL SIGNIFICANT DEGREE OF INFLATION, AND A RECORD LEVEL OF UNEMPLOYMENT, CANADA CAN NO LONGER CLAIM TO BE THE ENVY OF THE INDUSTRIALIZED WORLD AS IT DID SO SMUGLY IN THE PERIOD FOLLOWING THE 1973 OIL EMBARGO. THE ECONOMY IS IN THE DOLDRUMS AND THERE IS GROWING PRESSURE ON THE GOC TO TAKE STIMULATIVE ACTION (SEE OTTAWA 531). FINANCE MINISTER DONALD MACDONALD TOLD PARLIAMENT IN NOVEMBER REAL GNP WOULD NOT REACH 5 PERCENT GROWTH RATE PREDICTED EARLIER INX YEAR, AND HE WAS CONCERNED ABOUT THE SLOWDOWN IN CAPITAL INVESTMENT NEEDED FOR JOB CREATION (SEE OTTAWA 4627). ONLY IMMEDIATE MACDONALD REMEDY TO THE PROBLEMS, WAS FEDERAL JOBS--CREATION PROGRAM, BUT HIS REMARKS AT THE TIME AND SINCE CLEARLY INDICATE THAT FINANCE DEPARTMENT IS WORRIED ABOUT LACK OF GROWTH IN CAPITAL INVESTMENT, WHETHER FUNDS COME FROM ABROAD OR ARE GENERATED DOMESTICALLY. FOLLOWING QUEBEC ELECTION, THERE WAS SPATE OF STORIES ABOUT FLIGHT CAPITAL FLOWS TO VERMONT AND NEW YORK BANKS, BUT MORE IN-DEPTH STUDIES OVER PAST FEW MONTHS HAVE CONCENTRATED ON BUSINESS OPPORTUNITIES SOUTH OF THE BORDER RATHER THAN FLIGHT CAPITAL. FOR EXAMPLE, IN EARLY DECEMBER CTV CARRIED

LENGHTY STORY ON BRITISH COLUMBIANS INVESTING HEAVILY
IN WASHINGTON REAL ESTATE, AND MONTREAL GAZETTE OF
DECEMBER 13 FEATURED ARTICLE ON CANADIAN COMPANIES IN
U.S. AND GROWTH OF FOREIGN INVESTMENT THERE. RELATIVELY
POORER (COMPARED WITH U.S.) ECONOMIC PERFORMANCE IN
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CANADA AND REVERSE FLOW OF INVESTMENT TO THE U.S. CANNOT
HELP BUT IMPRESS GOC POLICY MAKERS. THUS, ONE HEARS
LESS FROM TOP OFFICIALS ABOUT CANADIAN ECONOMIC "IDENTITY"
AND MORE STATEMENT FROM JEAN CHRETIEN THAT CANADA
REALLY IS GOOD PLACE FOR FOREIGNERS TO INVEST.

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C O N F I D E N T I A L SECTION 3 OF 3 OTTAWA 0622

-- PM TRUDEAU GOVERNMENT'S DOMESTIC POLITICAL PROBLEMS
INCREASED SIGNIFICANTLY DURING 1976 AND PROBABLY HAD
DAMPENING EFFECTS ON ECONOMIC NATIONALIST ENDEAVORS AS

HIS GOVERNMENT GREW INCREASINGLY PREOCCUPIED IN TRYING TO KEEP DOMESTIC HOUSE IN ORDER. AS EMBASSY HAS REPORTED OVER PAST SEVERAL MONTHS, TRUDEAU POPULARITY WITH PUBLIC (AS REFLECTED IN POLLS) REMAINS LOW, AND HIS LIBERAL GOVERNMENT WAS BEING BLAMED FOR EVERY ADVERSE DEVELOPMENT. ORGANIZED LABOR ADAMANTLY OPPOSED WAGE AND PRICE CONTROL PROGRAM; LAW-AND-ORDER ADVOCATES ASSAILED GOC LEGISLATION ON ABOLISHING CAPITAL PUNISHMENT, PROVINCIAL AUTHORITIES ARGUED BITTERLY WITH FEDERAL GOVERNMENT OVER FEDERAL FUND TRANSFERS AND COULD NOT AGREE WITH TRUDEAU ON TERMS FOR PATRIATION OF
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CONSTITUTION; BUSINESSES WERE DISPLEASED WITH INCREASED GOVERNMENT INTERVENTION IN ECONOMY, AND MAN-IN-THE-STREET WAS UNHAPPY TO HEAR GASOLINE, HOUSING AND FOOD PRICES WERE CHEAPER IN U.S. THAN HERE AND DECIDED FAULT LAY WITH FEDERAL GOVERNMENT. THUS, LIBERAL GOVERNMENT FINDS ITSELF LOOKING FOR ISSUES TO BOLSTER SAGGING POLITICAL FORTUNES, ISSUES WHICH WOULD HAVE MORE DOMESTIC SEX APPEAL THAN ANOTHER BILL C-58.

8. ALTHOUGH COMMITTEE FOR AN INDEPENDENT CANADA FAILED TO ATTRACT MANY MEMBERS TO 1976 ANNUAL MEETING, THERE ARE STILL INFLUENTIAL NATIONALISTS AROUND WHO CAN COMMAND ATTENTION ON PARTICULAR ISSUE. TORONTO STAR STILL SERVES UP STRONG DOSE OF ECONOMIC NATIONALISM IN ITS EDITORIALS, AND PARTLY BY ITS RAILING AGAINST PROPOSALS TO ALLOW FOREIGN BANKS INTO CANADIAN BANKING SYSTEM AND PARTLY BY OTHER NATIONALISTS ISSUING DIRE WARNINGS AGAINST CANADA LOSING CONTROL OF SYSTEM, RESTRICTIONS ON THE SIZE AND GROWTH OF FOREIGN BANKS ARE ALMOST ASSURED. ECONOMIC NATIONALISTS CAN STILL GET SYMPATHETIC OUTLET IN THE PRESS. FOR EXAMPLE, STEPHEN CLARKSON, UNIVERSITY OF TORONTO PROFESSOR, HAD ALMOST FULL-PAGE FOR ARTICLE IN GLOBE AND MAIL ON DECEMBER 13 IN WHICH HE ROUNDLY CRITICIZED BOTH CANADIAN AND AMERICAN PARTICIPANTS AT NOVEMBER CONFERENCE BOARD MEETING IN TORONTO (SEE OTTAWA 4526) FOR SUGESTING THAT CANADIAN NATIONALISM HAD GONE TOO FAR.

9. ECONOMIC NATIONALISM, RATHER THAN BUSINESS JUDGMENT, ALSO WAS PROBABLY RESPONSIBLE FOR CABINET REJECTION OF THE WCI TAKEOVER PROPOSAL FOR THE WESTINGHOUSE APPLIANCE DIVISION IN CANADA -- THE ONLY REALLY TROUBLESOME DECISION IN THIS AREA MADE LAST YEAR. HOWEVER THE CANADIAN GOVERNMENT RECOUPED SOMEWHAT BY RESISTING THE TEMPTATION TO MEDDLE IN THE SALE OF THE WESTINGHOUSE TRADEMARK AND BY ENCOURAGING A MERGER IN THE APPLIANCE
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FIELD THAT INCLUDED THE MAJOR U.S.-OWNED COMPANY IN A 50 PERCENT OWNERSHIP POSITION.

10. GOOD ILLUSTRATION OF PINT THAT GOC IS TENDING TO BE LESS AGGRESSIVE IN PROMOTING AND/OR RESPONDING TO NATIONALIST SENTIMENTS IS PROPOSAL BY EMR MINISTER GILLESPIE IN MAY 1976 TO CHANGE OIL AND GAS LAND REGULATIONS TO PROVIDE FOR INCREASED GOC CONTROL OVER AND PARTICIPATION IN FRONTIER EXPLORATION AND DEVELOPMENT OF OIL AND GAS RESOURCES. CHANGES WOULD HAVE PROVIDED, INTER ALIA, PETRO-CANADA WITH OPTION TO ACQUIRE 25 PERCENT WORKING INTEREST IN CERTAIN LEASES, REQUIRE 25 PERCENT MINIMUM CANADIAN OWNERSHIP AS CONDITION OF PRODUCTION, AND COULD MANDATE USE OF CANADIAN GOODS AND SERVICES. PROPOSAL GENERATED HEATED CONTROVERSY WHICH CONTINUES. ALTHOUGH LEGISLATION WAS PROMISED FOR FALL OF 1976 NO BILL HAS YET BEEN INTRODUCED AND THERE ARE INDICATIONS IT MAY BE POSTPONED INDEFINITELY (SEE OTTAWA 16).

11. WHEREAS THE GENERAL OUTLOOK IS PROMISING AT PRESENT, THERE ARE A NUMBER OF AREAS WHERE NATIONALISTIC ATTITUDES MAY CONTINUE TO CAUSE US PROBLEMS. DECISION ON GAS AND GAS PIPELINES WILL BE NECESSARY IN THE NEXT SEVERAL MONTHS AND OPPONENTS OF ARCTIC GAS PROJECT ARE ALREADY RAISING SPECTRE OF UNDUE U.S. PRESSURE. AS EMBASSY HAS REPORTED (A-646, DECEMBER 23, 1976), SECRETARY OF STATE'S OFFICE IS CONSIDERING REPORT ON FILM INDUSTRY WHICH CONTAINS ADDITIONAL SUGGESTIONS FOR GOC ASSISTANCE TO CANADIAN FILM INDUSTRY TO POSSIBLE DISADVANTAGE OF FOREIGN PRODUCERS. CANADIAN PUBLISHERS WILL CONTINUE TO PRESS FOR SPECIAL MEASURES OF PROTECTION. BORDER TV PROBLEMS MAY BECOME PROBLEM AGAIN WHEN PRESENT MORATORIUM ON DELETION POLICY EXPIRES. LOOKING FURTHER AHEAD, WE CANNOT, OF COURSE RULE OUT A NEW UPSURGE OF ECONOMIC NATIONALISM, CONFIDENTIAL

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ESPECIALLY IF THE ECONOMY RESUMES A STRONG UPWARD GROWTH TREND AND IF THE PROBLEM OF CANADA'S NATIONAL UNITY PRESENTLY PREOCCUPYING CANADIANS IS RESOLVED IN A SATISFACTORY WAY.

12. CONCLUSION. WE MUST ASSUME THAT ECONOMIC NATIONALISM WILL CONTINUE HAVE AN INFLUENCE ON FORMULATION AND

IMPLEMENTATION OF GOC POLICY AND WE MUST REMAIN VIGILANT
FOR GOC ACTIONS DETRIMENTAL TO OUR INTERESTS. NEVERTHELESS,
VOICE OF ECONOMIC NATIONALISM IS SOMEWHAT MUTED
NOW. THIS ATTITUDE MAY LAST FOR SEVERAL MONTHS AS
UNEMPLOYMENT REMAINS HIGH, BALANCE OF PAYMENTS DEFICIT
CONTINUES AT RECORD LEVELS AND CANADIAN
BUSINESSMEN FIND INVESTMENT IN U.S. MORE ATTRACTIVE
THAN HERE. IN FACT, JEAN CHRETIEN MAY DISCOVER WAYS
TO MAKE FIRA EVEN MORE PERMISSIVE IF HIS EFFORTS AT
ENTICING FOREIGN INVESTMENT THROUGH SPEECHES ARE
UNSUCCESSFUL.
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